

# Ouverture de ‘Management Consulting and Global Markets’\*

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## *Abstract*

*In the last years, dominated by the new reality of the global markets, the traditional vision of corporate management has recorded many changes, that also change the role and the organizational structures of management consulting firms. Corporations operating in global markets have very diversified needs of management consulting. The new global markets generate a depth renewal in the services offered by consulting firms.*

*The rapid changes in consulting require new levels of specialisation for the professional resources involved.*

*Consultancy companies are actually the repository for years of experience and competences, transferred to the youngest consultants through team work on each single project and continuous training.*

**Keywords:** Management Consulting; Global Markets; Consulting Firms; Strategic Consulting

## **1. Overture**

Globalization, deregulation, organizational reengineering and downswing, the rise of information technology and the convergence of technologies of digital communication, have all contributed to change the corporation management. Yet, complexity and uncertainty in today’s time-competitive markets are developing a large number of organizations –profit and non profit, private and public- to offer guidance in the change efforts of corporate management. In this contest, as a result, external and internal consultants, consulting firms and individual consultants are all involved in the changes taking place in the industry: 1. the rapid increase in

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networks; 2. the ways in which professional expertise is delivered to clients; 3. and finally, the ways in which consulting firms gather and disseminate information.

## **2. The History of Management Consulting: from U.S. Beginning to Global Markets**

Management consulting has a long history. The first management consultants appeared around the turn of the century and focused on individuals (such as Arthur D. Little, Frederick Taylor, Harrington Emerson).

□ *'In 1909, the U.S. Congress established a corporate excise tax was proportionate to corporate profits...one result of the corporate income tax was the gradual accumulation of massive amounts of information about the financial side of a business productivity of assets, sources of profits, and the nature and causes of cost and expenses. Some accountants began to wonder about the usefulness of all these data in the management of an enterprise. Coincidentally, another new idea was making its way through the industrial community. It was that the management of a business created profits, not the mere ownership of a business. And, management involved directing and coordinating the separate functions that made up the business'<sup>1</sup>.*

Between 1910 and 1940, a second generation of consultants expanded the concept of offering business research services (Edwin Booz started in 1914 and James O. McKinsey started McKinsey & Co. in 1926)<sup>2</sup>, such as budgeting processes, the divisionalized organization, merit-based compensation schemes, and forecasting techniques. During the early post-war years, consulting experienced a big growth and important developments took place in the 1960's, when Boston Consulting Group operationalized the concepts of strategy and strategy consulting. Even as late as 1980, despite a growing proliferation of specialties, management consulting was still in its infancy as an industry, and centred on abstract issues embodying in the transaction cost part of the economy demand management's attention. Consequently, there was an important market for corporate symbol manipulation (brand image, intellectual capital, etc.) and management consultants were well prepared to meet this demand.

□ *'Clients would initially hire away top talent from consulting firms to do the same jobs as before, but now as employees. The alignment of high asset specificity with internal sourcing would over time prove more cost effective the buying consulting services from the outside', and knowledge accumulation then would shift toward the clients'<sup>3</sup>.*

Finally, in today's global markets management consulting is deeply changing. Unlike in past times, outsourcing suppliers grow more quickly than consulting firms.

□ *'Today, implementation is being relabelled outsourcing and transformation takes off in a sizable way (and despite recent growth it hasn't done that yet)...while consulting will be marginalized, limited to an advisory, quasi research role, subsumed into the larger transformation model...Consulting firms will be at risk, not just because their rates are comparatively high, but also because their offshore competitors will show up on the scene, providing quantifiable details on their level of quality'<sup>4</sup>.*

Anyway, the future of professional services of management consulting is all about people, knowledge and relationships (specially with selected universities specialized in management business administration). Clients want specialist knowledge with targeted fees and to work with consultants who respect them and are prepared to share their expertise for problem solving in global markets.

### **3. Corporate Strategy, Vision and Mission: the New Reality in Global Markets**

In the last years, dominated by the new reality of the global markets, the traditional vision of corporate management has recorded many changes, that obviously also change the role and the organizational structures of management consulting firms. Corporate management evolved from conditions of uniformity and rigidity (coherently with enterprises focused on production and sale costs, rewarding local economies of scale), to markets dominated by flexibility and variety (focused on market opportunities, maximising global economies of scale, first of all with synergies and interrelations of network).

In the past, when competition was in closed markets (national or international), business management was compared with static competitive environments, low innovation, limited permeability to information and a priority of tangible factors. In other words, business strategy developed with markets very defined and marked by a low intensity of competition, in which the maintenance of competitive positions was privileged. A static competitive environment allowed besides to maximize the profit with a 'linear employment' of resources, because demand and supply were static and then maintain a high foresight for long periods of time. Linear foresight then justified adoption of business strategies unchanged for long periods of time and identically extended to different markets of the world.

With the new millennium, market globalization imposed a deep transformation of strategy and corporate policy role, and accordingly caused also important innovations in management consulting structures. In global markets, new economic trends mark in fact the enterprise development, bringing out flexible strategies (without the elementary superiority of strategies in comparison to tactics), mutable, with a priority focus on competition (market-driven management).

In brief, global corporations tend to emphasize factors of discontinuity in the economic systems, valorising particularly all the elements of not-fidelity behaviours. In this 'not-linear approach', corporate strategy is integrated with new business concepts (vision, mission, global networking), viewing strategy in a more complex and competitive dimension, where local performances intersect with corporate global

performance and where short period actions (for different product-markets) determine the strategic behaviour pursued in the medium-long period.

Trends of growth of the global markets condition therefore the contents of a modern corporate strategy, whose complexity and articulation depend from the following factors:

- *markets in over-supply*. The global markets compete, for many products, with a growing production capacity, that is more and more superior to the demand potentialities. The over-supply becomes so a structural factor for the firm economy, whose profitable growth however has to hypothesize a progressive overabundance of good (more and more sophisticated and low-costing), sold anyway at declining prices, to motivate a final and an intermediate demand more and more unfaithful;
- *corporate networks*. Global markets promote the development of corporate networks, where the performance (tied up firms of all to global economies of scale and to the increasing importance of corporate finance and private equity) is linked to policies of corporate 'downsizing', to finalize the organization more and more thin and responsible, through targeted selections of personnel, outplacement, outsourcing, and transforming the 'country manager' in 'key manager', and so on.

□ *'The impact of private equity firms is changing the consulting/client relationship. Historically consultants who have long-term, broad-based client relationship inspire great client loyalty. Now private equity has become a driving force for the consulting industry. As a result of private equity backing, consultancies are often working for two clients: the private equity firm and the company it owns. Consultancies have long dabbled with investment arms. Beyond a few strategists, though, the majority of consulting firms have avoided blending an equity arm with consulting'<sup>5</sup>.*

- *corporate culture of diversity*. Global markets and corporate networks favour an increasing heterogeneity's organization and diffused 'cross cultural' interrelations in employees, co-makers and clients. Corporate strategy is finalized therefore to manage culture's differences and to turn into a competitive advantage, exploiting corporate culture as an intangible asset, whose fundamental quantitative indicators of performance (*credo diffusion and values fine tuning*) tend to synthesize the levels of efficiency of network;
- *corporate and product intangible assets*. Global markets underline priority of product intangible assets (services pre-sale, after-sale assistance, design, logistics, merchandising, etc.) and above all competitive predominance of corporate intangible assets, i.e. brand equity, information system and corporate culture;
- *time-based competition*. The globalization accents competitive dynamics and pushes corporate strategy toward growth policies based on time compression and time value, defining the time as an important competitive factor. Particularly, time compression introduces immediate effects on the business reorganization, assigning a specific economic value to the business

efficiency of time consumption (for instance, reducing the time-lags of product deliveries).

Briefly, firms operating in global markets have very diversified needs of management consulting. The new global markets generate a depth renewal in the services offered by consulting firms. Global consulting firms have to work, from a side, with boards of 'client'-firms more and more sophisticated in using global management techniques; and from another side, consulting firms have to interact with a hierarchical system 'flat' -with a declining number of positions in the organization, as performed in global corporations- in which the 'turnaround' pushes promotions inside the chessboards of the organization.

The 'client'-firms have therefore new needs and accordingly they emphasize the priority of consulting services with a specific knowledge value, because clients have in fact by now learned the techniques for strategic and operational plans and the activities for routine assistance.

□ *'Today, for consulting firms it is very important to know all the signals from the client, to synthesize them and to draw the conclusions...The report with the market opportunities is not enough now... "Client"-firms now need new ideas, innovation and targeted assistance... The ability to work in team is fundamental and a global vision is more and more important, as to be ready to travel a lot, to hold the footstep with the growth of the clients'*<sup>6</sup>.

Anyway, the future of professional services of management consulting is all about people, knowledge and relationships (especially with selected universities specialized in management business administration). Clients want specialist knowledge with targeted fees and to work with consultants who respect them and are prepared to share their expertise for problem solving in global markets.

#### **4. Value for Money**

What businesses expect nowadays from consultancy companies is a willingness to step down from the pedestal and get to grips with corporate processes in order to create lasting value: in other words, prompt, practical-minded responses to requests providing rapid results, but with an eye on the medium to long-term benefits. They also expect strategic consultants to develop corporate models and business models that are flexible and capable of adapting to rapid changes in the business environment, whilst strengthening the enterprise's fundamentals: resources and organisation. And finally consultants should encourage enlightened entrepreneurs to become more creative, maintaining an appropriate level of pragmatism during the analysis and idea development phases.

How is the perception of value for money changing? In the minds of strategic consulting company clients, what adds value to the enterprise processes? It is no longer – and has not been for a long time – a matter of defining the business' strategic approach, its market positioning and 'related areas'. Today it concerns providing assistance to implement the strategy and providing support in the search

for excellence, within the company's expansion limits. And this needs to be evaluated in the context of global markets - the size and features of which are constantly evolving - which are dramatically increasing the variables and the degrees of complexity to be tackled, requiring increasingly rapid response times.

How can these needs be met? By becoming facilitators of internal processes and change drivers, planning and building highly developed scenarios amidst discontinuity, as well as by closing the gap caused by information asymmetries - a gap which often penalises businesses - and by identifying unique, distinctive solutions for each client. The centres of excellence and the industry practices, essential in order to promptly meet companies' requirements, are not sufficient on their own to ensure successful completion of consulting projects: the team must also have entrepreneurial open-mindedness and good networking skills.

With what kind of human resources? The rapid changes in consulting require new levels of specialisation for the professional resources involved. In addition to the traditional consolidated skills, strategic consultants must have expertise and interpretation skills typical of entrepreneurs, they must always be capable of evolving through modifying their usual frames of reference, finding inspiration in other markets or areas and then relating them to the business context, thereby extending the boundaries of the company knowledge. The 'team' concept thus remains key to developing consultancy work: the project leader must be 'entrepreneurially-minded', the resources must have specific industry specialisations but be open to cross-fertilisation by complementary approaches, models or experiences, essential to increase the value of the solutions offered.

## **5. Strategic Consultancy Firms**

Today the intrinsic value of consultancy firms is still not fully recognized and in fact it is an established belief that these businesses are nothing but the sum of the professionals employed. Consultancy companies are actually the repository for years of experience and competences, transferred to the youngest consultants through team work on each single project and continuous training. By investing in human resources, which are the main assets for the business as well as the client, consultancy firms always keep their expertise fresh, constantly regenerating it. Continuous search for talent is an essential precondition, but it is insufficient 'per se': just as important is the environment in which talented resources are inducted, one which must foster both professional and entrepreneurial growth.

In a market driven primarily by supply it is mainly the distinctiveness of the entrepreneurial model and the ability to leverage one's own knowledge and experiences, rather than the size which qualifies and positions the consultancy firm. Competition is based more on ideas and approaches than on the size of the business and the quantity of available resources. This entails constant focus on improvement and provides the client with a guarantee in terms of the quality, innovativeness and distinctiveness of the consultancy work provided.

The flexibility and rapid response time of a strategic consulting boutique act as a counterpoise to the more structured approach typical of international consulting firms. Whilst in the past an international dimension offered a guarantee in terms of cultural exchange and transfer of innovative methodologies to be applied to the

various geographic areas, nowadays the international dimension assures a networking system which is useful for transnational projects. In fact the new IT frontier allows any consulting company, whether large or small, to be up to speed in real time in terms of sector developments, contributing to knock down the size-related barriers to competition in consulting. A virtuous circle is created, one which gives credit to the consultancy market as a constant innovation system, whose benefits spill over into the solutions offered to clients.

## **6. Breaking Down the Borders Between Scientific Research and Management Consulting**

Management consultancies like McKinsey and BCG are nearly always at the top of the first job wish list of young US and European MBA graduates. Over a third become management consultants<sup>7</sup>.

In the course of the last thirty years, the relationship between management consulting and management education<sup>8</sup> has become more complex, and the dividing line between the two has become less stable and increasingly difficult to define. The business world is in a state of continuous change; and education systems cannot always keep up.

One major development is the higher level of complementarity between academic education and consulting. The big consultancies are increasingly taking on the role of 'postgraduate business schools'. Many MBA graduates from the most prestigious business schools, such as Harvard and the Insead, start their careers in a leading consultancy firm (e.g. McKinsey, Booz Allen, Ernst & Young, BCG) before going on to take up high level positions in one of the large multinationals.

□ *Louis Gerstner, CEO of IBM, was a McKinsey consultant, as were the CEOs of American Express, Westinghouse, and of Lufthansa. Henry Mintzberg sets out the best strategy for a young graduate who aims to become part of the top management of a large corporation, as follows: 'After the MBA, you work as a consultant with some prestigious firm for a time, skipping from one client organization to another. And then you leap straight into the chief executive chair of some company, making judicious moves to others in the hope that you may one day end up running a company like IBM'<sup>9</sup>.*

There is to some extent also greater integration between the two worlds we are looking at. The main consultancy firms are taking an increasingly active part within academic institutions. They provide funds for special training projects, for master's degrees and for complete undergraduate degree courses. McKinsey has long been a key sponsor of Harvard Business School, and the British Management Consultancies Association has given financial backing for the London Business School. And the representatives of the big consultancies are on the boards of many business schools.

Complementarity may also turn into competitive subsidiarity. In the US, and also in Europe and in Japan, the main business schools have started to run executive development programs, i.e. tailor-made training programs for middle and top

managers, which are designed to meet the specific requirements of the firms that have commissioned the courses. More importantly, the big consultancies are increasingly setting up and developing their own training centers, or even 'corporate universities', which aim to provide new employees (and client firm executives) with the type of specialist, mainly process-related, knowledge (for example the knowledge concerned with handling change management processes, which is an essential part of management consultants' work) that is rarely included in university curricula, even in universities outside Europe. Though consulting firms will no doubt continue to recruit the new graduates of the most renowned business schools, there is a growing risk that even these schools may stop being real educators and may end up acting as mere selectors, while the people selected will be trained elsewhere.

In contrast to these developments, there is no clear sign of spontaneous change in the attitudes of academic research toward management consulting.

Those engaged in developing business theory have always been aware of the essential, and vital, effects that practice has on theory.

□ *Management teachers should not shut themselves off from the real world. Indeed, they should take an active part in it so as to enrich their ideas and obtain a sound background that goes well beyond information from books or superficial, sometimes even futile, so-called 'research projects'.... They should remember what Galileo said: 'You don't learn to play the organ from people who build organs but from those who know how to play them'<sup>10</sup>.*

□ *In 1977, as a result of the discussions that took place the previous year during a conference concerned with management consulting, the Academy of Management approved the following Position Statement on Professor-Consultants:*

*The Academy of Management is supportive of professional consulting activities by its members when these activities are conducive to the professional growth of the individual and contribute to the management discipline through the enrichment of teaching, research, and understanding of the field.*

Yet in the academic world, both in the US and to a greater extent in Europe, there continues to be the idea that research and consulting are essentially two distinct and separate worlds. Research is seen as having the role of creating new knowledge, while the role of consulting is to apply existing knowledge to concrete corporate contexts<sup>11</sup>.

We may need to ask ourselves if such a dichotomy has much value in today's world.

The results obtained in research work, and their validity, depend on researchers being really able to observe, analyze and penetrate the object studied as it really is. Physics or chemistry researchers do experiments in their laboratories; but management researchers must find laboratories outside the university, since firms cannot be reproduced within the walls of academic institutes.

Nowadays, firms are characterized by a high (and increasing) degree of complexity. External observation consequently becomes an increasingly

inappropriate method if one is to adequately grasp the increasingly wide and articulated, heterogeneous and changeable dynamics involved in the corporate evolution, be they structural, relational, competitive or technological, etc.

Bringing the two worlds of research and consulting closer together consequently becomes an opportunity that can no longer be put off. Management consultants need to know the theoretical bases of management disciplines, and their evolution outside the constraints of day-to-day business. And it is equally important for researchers to be able to adopt an 'intervention view' through research projects that include periods of real consultancy work.

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## Notes

<sup>1</sup> Stewart A. Washburn, Challenge and Renewal. A Historical View of the Profession, *Journal of Management Consulting*, November 1996, p. 50.

<sup>2</sup> Staffan Canback, The Logic of Management Consulting (Part One), *Journal of Management Consulting*, November 1998, p. 4.

<sup>3</sup> Staffan Canback, The Logic of Management Consulting (Part Two), *Journal of Management Consulting*, May 1999, p. 10.

<sup>4</sup> Fiona Czerniawska, Outsourcing: Death Knell for Consulting?, *Consulting to Management*, June 2006, p. 59.

<sup>5</sup> Jagdish Sheth, Andrew Sobel, The Soul of Great Professional, *Consulting to Management*, September 2000, p. 13.

<sup>6</sup> Roger Abravanel, Più creatività per i nuovi consulenti, *Corriere della Sera*, 20 luglio 2007.

<sup>7</sup> Cox W. 1997, *The US Masters*, Management Consultant International, October.

<sup>8</sup> The first academic institutes of research and education in management sciences were opened in the second half of the nineteenth century. The Warthon School of Philadelphia was founded in 1881, the Business School of Tokyo in 1887, that in Osaka in 1901, and the first German Handelshochschulen (Aachen and Leipzig) were set up in 1898. The important position held by today's management academic institutes within research and higher education around the world, however, is a result of the rapid expansion undertaken in the second part of the 20th century. The US business school (Harvard, Columbia, Stanford, Wharton, MIT, Chicago, Northwestern, etc.), with its three main articulations (pre-experienced education, post-experienced education, and tailored education), has been the reference model for many of the most prestigious European higher education institutes of management. For the UK institutes (the London Business School, Imperial College, and the Manchester Business School), for the Dutch ones (the Rotterdam School of Management, and Nijmegen University) and, though to a lesser extent, for the German institutes (the German International School of Management and Administration, in Hanover) and those in France (e.g. the Insead in Fontainebleau).

<sup>9</sup> Engwall, L. 1998, *The Standardization of Management*. Paper presented at the CEMP workshop in Lausanne, 20-21 November.

<sup>10</sup> Fazzi, R. 1982, *Il governo d'impresa* (Volume I), Giuffrè, Milano.

<sup>11</sup> Savall, H. 2001, *ISEOR's Socio-Economic Method: A Case of Scientific Consultancy*. In A. F. Buono, H. Savall (Eds.), *Socio-Economic Intervention in Organizations: The Intervener-Researcher and the SEAM Approach to Organizational Analysis*. Charlotte, North Carolina: Information Age Publishing.